

Message Text

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PAGE 01 TEL AV 01284 210136Z

43

ACTION NEA-10

INFO OCT-01 ISO-00 EB-07 COME-00 TRSE-00 OPIC-03 AID-05

PM-04 NSC-05 SP-02 SS-15 CIAE-00 DODE-00 INR-07

NSAE-00 PA-01 USIA-06 PRS-01 SAM-01 SAB-01 IO-11 /080 W

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R 201441Z FEB 76

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 291

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E.O. 11652: N/A

TAGS: EFIN, IS

SUBJECT: TAX REFORMER RESIGNS

REFS: (A) TEL AVIV 0848, (B) TEL AVIV 1176

1. ISRAEL'S INCOME TAX COMMISSIONER, YITZHAK MANN, RESIGNED IN EARLY FEBRUARY BECAUSE, AS HE EXPLAINED, HE WAS NOT GIVEN SUFFICIENT AUTHORITY TO DO HIS JOB AND WAS NOT CONSULTED ABOUT ECONOMIC POLICY DECISIONS WHICH AFFECTED HIS AREA OF RESPONSIBILITY. FINANCE MINISTER RABINOWITZ MET WITH MANN IN AN ATTEMPT TO PERSUADE HIM TO STAY, AND HAS NOT YET ACCEPTED HIS RESIGNATION OFFICIALLY. LATEST REPORTS, HOWEVER, SUGGEST THAT MANN WILL NOT CHANGE HIS MIND.

2. RABINOWITZ APPOINTED MANN LESS THAN A YEAR AGO AND CHARGED HIM WITH IMPLEMENTING ISRAEL'S INCOME TAX REFORM. MANN HAS PUSHED UNSUCCESSFULLY FOR A NUMBER OF CHANGES SUCH AS CONTROLLING CURRENCY BLACK MARKET AND ELIMINATING NUMBER OF TAX LOOPHOLES. HE ALSO WAS NOT GRANTED AN INCREASE IN HIS DEPARTMENT'S RESOURCES WHICH HE SAID WOULD INCREASE TAX COLLECTION SUBSTANTIALLY. LAST NOVEMBER HE IMPOSED A TAX ON PROFITS FROM NATAD DOLLARS BUT WAS IMMEDIATELY OVERRULED BY RABINOWITZ.

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PAGE 02 TEL AV 01284 210136Z

MANN HAD ALSO FAVORED STRICTER REGULATIONS FOR RECORD

KEEPING IN ISRAEL'S CASH-BASED DIAMOND INDUSTRY.

3. MANN'S CRITICS MAINTAIN THAT BOTH HIS STYLE AND ACTIONS WERE INEFFECTIVE AND, IF NOT CHECKED, WOULD DESTROY ISRAEL'S CAPITAL MARKET. FACT IS THAT SINCE DECEMBER DECISION TO PHASE OUT BEARER-BONDS AND TAX NEW BONDS' INCOME, MARKET FOR STOCKS AND BONDS HAS BEEN INDOLDRUMS. CRITICS MAINTAIN THAT MANN SHOULD CONCENTRATE ON TAX COLLECTION AND NOT MAKE PUBLIC STATEMENTS WHICH ARE NOT CLEARED WITHIN THE MINISTRY. HIS OWN STAFF IS CRITICAL OF HIS PROPENSITY TO ANNOUNCE POLICY FROM JERUSALEM BUT NOT SPEND TIME WITH THE TROOPS--THEY CLAIM HE HAS NEVER VISITED SEVERAL FIELD OFFICES. HE IS ALSO ACCUSED OF TRYING TO DO TOO MUCH TOO SOON AND WITH INSUFFICIENT STAFF WORK. BACKLOG OF TAXPAYERS TO BE AUDITED HAS RISEN FROM 400,000-500,000 IN LAST YEAR DESPITE MANN'S DECLARED INTENTION TO IMPLEMENT SAMPLE AUDIT PROCEDURES. (GOI HAS RECEIVED TECHNICAL ASSISTANCE FROM US INTERNAL REVENUE SERVICE IN THIS AREA).

4. MANN MAINTAINS THAT HE WAS ONLY TRYING TO IMPLEMENT TAX INCOME LAW AND INTRODUCE BADLY NEEDED CHANGES SUCH AS REQUIREMENT THAT BANKS REPORT ALL CASH TRANSACTIONS EXCEEDING IL 15,000. MANN WAS QUOTED IN THE PRESS AS SAYING THAT NOTHING HAD CHANGED IN MINISTRY OF FINANCE SINCE HE LAST WORKED THERE 15 YEARS AGO.

5. EMBASSY'S COMMENT: MANN'S RESIGNATION IS ANOTHER IN GROWING SERIES OF RECENT ADVERSE DEVELOPMENTS IN ISRAEL'S ECONOMIC LIFE. THE DIRECTOR OF CUSTOMS IS STILL IN POLICE CUSTODY FOR ACCEPTING BRIBES (REF A). RECENT DELAY IN IMPLEMENTATION VALUE ADDED TAX (REF B) BECAUSE OF A LABOR DISPUTE AMONG TAX COLLECTORS PLUS REVELATION THAT FINANCE MINISTRY FORGOT TO INCLUDE IL 500 MILLION IN GOI EXPENDITURES IN NEXT YEAR'S DRAFT BUDGET FURTHER CONTRIBUTE TO FEELING THAT ISRAEL'S ECONOMIC POLICY APPARATUS NEEDS OVERHAULING. THERE ARE REPORTS OF OTHER HIGH LIMITED OFFICIAL USE

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PAGE 03 TEL AV 01284 210136Z

RANKING MINISTRY OF FINANCE OFFICIALS WANTING TO RESIGN AS WELL AS RUMOR THAT MINISTER RABINOWITZ HIMSELF IS TIRED OF PRESSURES AND CONSTANT CRITICISM AND WOULD LIKE TO RELINQUISH FINANCE PORTFOLIO.
TOON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INCOME TAXES, TAX REFORMS, GOVERNMENT MINISTRIES, PERSONNEL RESIGNATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976TELAV01284
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760065-0772
From: TEL AVIV
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760228/aaaaaydw.tel
Line Count: 112
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 TEL AVIV 848, 76 TEL AVIV 1176
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 14 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 JUN 2004 by GarlanWA>; APPROVED <02 JUL 2004 by morefirh>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: TAX REFORMER RESIGNS
TAGS: EFIN, PINT, IS, (MANN, YITZHAK)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006